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R.I. ranks 2nd to last in pension financing

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Only West Virginia is in worse shape, a study finds. Rhode Island has banked just 56 percent of promised payments; the U.S. average is 82 percent.

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PROVIDENCE — Rhode Island's public pension system is among the most underfinanced in the nation, according to a national report released last week, which also raises concerns about the state's massive bill for retiree health-care costs.

Only West Virginia's retirement system is in worse shape than Rhode Island's, according to the study produced by The Pew Charitable Trusts' Center on the States, a 73-page analysis that highlights the growing disparity between public- and private-sector retirement benefits, among other key findings.

"If we had a hope of what this report could do, it would help people pay more attention to an issue that comes in and out of public consciousness," said the report's co-author, Katherine Barrett. "It's so much money."

Indeed, the report notes that Rhode Island taxpayers must raise another $4.3 billion to cover required retirement payments over the next 30 years for the 45,000 current and former state workers and teachers vested in the system. Their health care will cost taxpayers another $700 million, a tab that must be disclosed for the first time because of new accounting standards.

Rhode Island's situation is not good, but it is far from the only state with huge pension and health-care obligations for retired workers. Nationally, the Pew study found that states are on the hook for $2.73 trillion over the next 30 years.

Rhode Island is making progress in its effort to finance its pension system, according to Barrett, but it faces an uphill battle.

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ised pension payments. The national average is 82 percent.

And Rhode Island's financing levels have actually worsened. The report was based on 2005 numbers, but the state's actuary reported in July that the unfunded liability has grown to approximately $4.9 billion.

"West Virginia is very much in the same situation," Barrett said. "For a very long time, the necessary funding wasn't put in, so now these underfunded pension systems are really suffering from the mistakes of the past."

Neither the governor nor the state treasurer sought to cast blame in light of the report's revelations. Instead, they cited it as evidence that immediate action must be taken to address an issue that will become an increasingly expensive burden on taxpayers.

"I'm not surprised," state Treasurer Frank Caprio said of the report. "Rhode Island decision-makers have been focusing on this for the last three years anyway .... I'm optimistic that the legislature is going to roll up its sleeves and do some good work in this area this session."

Legislative leaders indicated that may be the case.

House Speaker William J. Murphy, D-West Warwick, raised eyebrows this fall after announcing pension change as a priority for the coming session. Last week, he reiterated plans to form a commission in the coming weeks to study changing the public pension system, known as a defined-benefit plan, toward a 401(k)-like system, or defined-contribution plan.

Murphy said he wants to see legislation passed this session that would adopt changes recommended by the commission, even if there are short-term costs. The state's actuary recently found that moving to a 401(k)-style system would cost Rhode Island taxpayers $151.5 million next year and more than $520 million over the next seven years before the state sees any savings.

For years, public employees, backed by labor unions, have successfully fought off efforts to change Rhode Island's system.

The Pew report notes that the vast majority of private workers don't have pensions.

Nationally, 90 percent of public-sector employees had defined benefit pension plans in 2005, while just 20 percent of private-sector employees had that benefit. Further, the median annual pension payment for public employees was $17,640, while private workers received $7,692.

Looking at health care, the report found that 82 percent of retired public workers received health benefits of any kind from the state; just 33 percent of retired private employees received health care from their former employers.

"While there are signs that governments are instituting some reforms to scale back benefits, particularly for new employees, the pace of change is dramatically slower than in the business world," reads the report.

Indeed, Governor Carcieri identified "pension reform" as a top priority soon after taking office, according to his spokesman, Jeff Neal.

He pushed changes in 2005 adopted by the General Assembly that included a minimum retirement age for the first time since 1984 (at least 59 years old after 29 years of service); curbs on the 3-percent, compounded cost-of-living pension increases for state retirees; and a reduction in the maximum retirement benefit, from 80 percent after 35 years to 75 percent after 38.

The changes, opposed by unions representing the employees, applied only to new teachers and state workers and to those who had fewer than the 10 years needed to be vested in the system.

There is a bit of good news in the report.

It ranks Rhode Island as a "top performer" in making annual payments to reduce its $4.9-billion unfunded pension liability. The state is in the seventh year of a 30-year plan to do just that; state taxpayers will contribute $397 million next year.

But the report found that most states, like Rhode Island, largely ignore their health-care contributions, preferring a pay-as-you-go system that is cheaper in the short-term but far more expensive in the long run.

Health-care costs for retirees weren't supposed to cost taxpayers anything when then-Gov. Edward D. DiPrete pitched the idea of lifetime health benefits in 1989.

The General Assembly that year committed the state to paying anywhere from 50 percent to 100 percent of the health-insurance premiums of its former workers. The theory was that payments by the retirees and a small contribution from each state worker would more than cover this new retirement benefit.

It didn't work out that way.

Rhode Island taxpayers paid $21.8 million last year for the health care of retired state employees, teachers and their spouses, according to the governor's office. The bill for the current year has grown to $28.5 million, and it is expected to keep rising as baby boomers join the system.

While retiree health-care costs aren't cheap, the report notes that Rhode Island's obligations pale in comparison with other states.

Barrett said she was surprised by that fact. Caprio was not: "The level of retiree benefits that state employees receive is not the level that many other states afford their employees," he said.

Rhode Island law allows a state worker to buy coverage for a spouse, but also limits what a state worker has to pay for that coverage to "the group rate for active state employees." The law has been interpreted to allow retired schoolteachers to buy health coverage, through the state, for themselves and their spouses at the same discounted rate.

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It does not specifically say who is responsible for making up the difference, and it is unclear who in state government decided this was a taxpayer responsibility. But the state has been picking up the difference in cost for retired teachers, state workers and their spouses since 1997.

The report did not mention pension and health-care obligations of individual cities and towns. But large communities such as Pawtucket and Providence have retiree health-care liabilities for their police and fire personnel that total tens of million of dollars for each municipality.

The study notes that state retiree heath-care costs could be much worse. Connecticut, for example, has an unfunded liability of $14 billion on the pension side and another $21.7 billion for retiree health care.

Many states, such as Massachusetts, have recently made investments in their retiree health-care systems in an effort to move away from a pay-as-you-go system.

Carcieri last year proposed shifting $100 million from the sale of tobacco-settlement bonds to a trust dedicated toward retiree health care. Ultimately, the Assembly decided to use the majority of the tobacco money to plug a state budget deficit.

But the treasurer's office and the governor's office are working on a plan to establish a similar trust for the coming fiscal year, although they've yet to decide on how to pay for it.

"Governor Carcieri has been warning about the unfunded liability in the state's pension and retiree health plans since 2003," the governor's spokesman, Neal, said. "The governor looks forward to working with the general treasurer and the legislature to address this important issue."

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